Testimony of

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"U.S. – Africa Trade Relations: Creating a Platform for Economic Growth"

Mr. Chairmen and Members of the Subcommittees, my name is Lisa D. Cook, and I am an Assistant Professor of Economics and International Relations at Michigan State University. Thank you very much for the opportunity to testify on the important topic of U.S. – Africa trade relations.

International trade has been an engine of growth for both the U.S. and Africa. The U.S. case is well known in economic history and today. Between 2000 and 2007, a three-fold increase in global trade with Africa has been associated with 5% average annual growth in African economies. Likewise, a falling share of international trade with Africa coincided with negative economic growth for the prior three decades. My research, along with that of other researchers, shows and analyzes the reversal of decades of economic decline in Africa.

My main point is that increased trade with Africa has resulted in and can result in better outcomes for the U.S. and for Africa. Coca-cola beverages, Pampers diapers, Jeep vehicles, and Intel technology can be found throughout Africa. Ethiopian and Kenyan coffee, products made from Egyptian cotton, and South African wine are no longer exotic and are ubiquitous on the shelves of supermarkets, department stores, and discount chains around the United States. U.S. trade with Africa increased four fold between 2000 and 2008. Consumers in both places are better off because of greater variety and competition in products and services.

What we know is that the U.S. and Africa are better positioned to mutually benefit from trade than at any other time in recent history. My research shows that it is not just due to luck and high oil prices. Reforms undertaken by many African countries in the late 1980's and early 1990's contributed to growth and to Africa becoming more integrated into the world economy through international trade. Average inflation rates have fallen to single digits, fiscal deficits have diminished, and days to export goods have been significantly reduced.

Trade with the U.S. has been interrupted by the financial and economic crisis. Exports to Africa nearly tripled between 1999 and 2008. Imports from Africa increased six fold over the same period. Exports to Africa shrank by 11% between the first quarter of 2008 and the first quarter of 2009, while imports from Africa fell 57% over the same period. While energy-related products were noticeable factors with respect to the decline in both exports and imports, declines were evident in most sectors. Such a dramatic reversal in demand for Africa's exports has other ominous implications. Declines in demand and in commodity prices lead to lower government revenue, which in turn leads to lower spending on public goods that the poor so desperately need to have provided in Africa. Poverty reduction has recently been linked to agricultural exports, and these constitute the lion's share of Africa's exports. Separately but of equal concern is that, even if there were demand for African exports, international trade would be difficult. An added feature of the financial crisis is that trade finance in Africa has contracted sharply or become prohibitively expensive.

Both the U.S. and the continent of Africa will rely on trade for recovery from the global economic slowdown. In the long run, trade with Africa presents a number of opportunities. Rising living standards in Africa mean that American firms can export more and increase market share. Despite the economic downturn, U.S. exports to Africa rose in several categories, including footwear, electronics, and transportation equipment, and these exports have risen steadily in recent years. U.S. export activity has had a number of positive spillovers for African firms. For example, in Africa Coca-Cola has simultaneously boosted its sales and promoted local entrepreneurship by providing infrastructure, such as roads to connect suppliers and consumers, and business training to independently-owned distributors of Coca-Cola products. American Plastics Technologies (APT), a small equipment manufacturer in Illinois, has partnered with Alpha Fluids in Lagos, Nigeria, which will produce IV solutions, medical drips, medical beverages, and bottled water for Nigeria and ultimately to West Africa. As a result, direct opportunities for employment – 40 new jobs at APT – and indirect opportunities for suppliers, 16 of them in the U.S., have been created on both sides of the Atlantic.

But trade is not a panacea for economic growth, and trade with Africa is not perfect. African countries are heavily dependent on exports of [international trade in?] primary commodities, and the prices of most of Africa's commodity exports have declined systematically over the last 60 years. Whereas Africa was responsible for 7% of world trade in 1948, it now represents only 3% of world trade. Trade reforms were adopted by many African countries along with other reforms, but barriers to trade remain. On average, it costs almost double the amount to ship a container from Africa as it does from an OECD or rich country. It takes five to six days to process exports and imports in the U.S. For Chad, exports take 78 days to process, and imports take 102 days to process. Infrastructure, governance, and the general business climate continually hinder full realization of Africa international-trade potential. The problems with AGOA implementation are well known. Among those cited are limited composition of exports under AGOA, which are largely concentrated in energy and textiles, and lack of awareness of opportunities presented by AGOA. In general, a host of policies, practices, and institutions related to trade must be addressed in order to maximize the gains of U.S.-Africa trade. The extent to which gains from trade between the U.S. and Africa may be realized will depend on many factors, including the avoidance of protectionist measures on both sides of the Atlantic.

Finally, it would be naïve to report or to believe that trade by itself would be sufficient to substantially improve living standards and reduce poverty in Africa. Aid, too, is important. Africa's development challenges are enormous and should be fought on all fronts. Trade and aid are not mutually exclusive, as they have been so starkly framed in the debate. U.S. aid agencies and mechanisms have been critical in connecting American firms to partners in Africa. Ex-Im Bank guaranteed a loan of $16 million to support the American Plastics Technologies partnership mentioned earlier. U.S. agencies have also been instrumental in supporting potential partners in Africa. USAID's West Africa Trade Hub offers industry-specific training and facilitates participation in trade shows. Nora Bannerman exports thousands of shirts from Ghana to Ross Stores, one of the largest discount clothing stores in the U.S., with the help of this Trade Hub. Trade-augmenting aid has been and should continue to be a worthwhile investment in sustainable development. Given increasing claims on resources in developed countries in the short run and considerations of sustainability of development in the long run, increasing trade between the U.S. and Africa may produce significant spillovers for Africa's development for many years into the future.

In conclusion, U.S.-Africa trade has increased significantly in recent years. This has created growth opportunities in both places. Given this recent experience of dramatic growth in Africa, now is an especially important time to augment this relationship, which should be mutually beneficial.